The Commonwealth of Massachusetts
Executive Office of Health and Human Services
Division of Health Care Finance and Policy
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JUDYANN BIGBY, M.D.
Secretary

DAVID MORALES
Commissioner

February 12, 2010

Michael Jellinek, MD
President
Newton Wellesley Hospital
2014 Washington Street
Newton Lower Falls, MA 02462

Dear Dr. Jellinek:

The Division of Health Care Finance & Policy (Division), in collaboration with the Attorney General's Office (AGO), is required by state law to hold annual public hearings concerning health care provider and insurer costs and cost trends. (See the public notice attached as "Exhibit A.") Massachusetts General Law, chapter 118G §6½ requires the Division to identify a representative sample of health care providers and payers as witnesses for such hearing. In accordance with these provisions, Newton Wellesley Hospital has been identified as a witness and is hereby requested to submit written testimony to the questions in "Exhibit B" and "Exhibit C" in accordance with this notice and exhibits.

The goals of the questions in "Exhibit B" are to examine and verify the findings presented in the Division's three preliminary reports: The Massachusetts Health Care System in Context: Costs, Structure, and Methods Used by Private Insurance Carriers to Pay Providers; Private Health Insurance Premium Trends 2006-2008; and Health Spending Trends for Privately Insured 2006-2008. (The Division's findings and research are located at www.mass.gov/dhcfp/costtrends.) Specifically, the Division seeks to understand to what extent - if any - your organization's experience varies from the agency's findings, to solicit additional information that explains the premium and cost increases, to gather your perspective on the dynamics driving the trends observed, and to obtain your recommendations for short and long term solutions to such dynamics.

Moreover, the Attorney General's Office recently released a Preliminary Report on its Investigation of Health Care Cost Trends and Cost Drivers pursuant to M.G.L. c. 118G, § 6½(b) (http://www.mass.gov/Cago/docs/healthcare/Investigation_HCCT&CD.pdf), which will also be the subject of these hearings. Based on the findings of that Preliminary Report, the Attorney General's Office has provided additional questions requiring written testimony in "Exhibit C."

While this testimony must be in writing, you may also be called for oral testimony on one or more of the hearing dates scheduled to take place on March 16, 18, and 19, 2010. Please be advised

that additional dates the following week may be necessary to accomplish the Division's statutory directives.

With your assistance and active participation, the Division seeks to develop tangible policy recommendations to mitigate health care cost growth and to develop an integrated health care delivery system in a final report to the Legislature.

Newton Wellesley Hospital is required to:

1. electronically submit to the Division written testimony, signed under the pains and penalties of perjury, responding to the areas of inquiry identified on the attached "Exhibit B" and "Exhibit C" on or before – but no later than - close of business Friday, February 26, 2010; and
2. be prepared to appear at a public hearing to provide oral testimony at some time during, but not limited to, the following days: March 16, 18, and 19.

The written testimony should be submitted to costtrends@hcf.state.ma.us. Any and all written testimony will be a public record and will be posted on the Division's website. The Division will contact Newton Wellesley Hospital no later than March 5th and determine whether you will be required to provide oral testimony at the hearings, and if so, the time period for which you must be present. Thank you for your attention to this important and timely matter.

Sincerely,

David Morales
Commissioner

cc: Thomas O'Brien, Office of the Attorney General

Enclosures:
Exhibit A: Public Notice of Hearing
Exhibit B: Instructions and DHCFP Questions for Written Testimony
Exhibit C: Instructions and AGO Questions for Written Testimony

Exhibit A

NOTICE OF PUBLIC HEARING

Pursuant to the provisions of M.G.L. c.118G, §6 ½ the Division of Health Care Finance and Policy ("Division") will hold a public hearing beginning Tuesday March 16, 2010 at 10:00 AM at the Reggie Lewis Center, 1350 Tremont Street, Roxbury Crossing, MA 02120, and subsequent days thereafter regarding:

HEALTH CARE PROVIDER AND PAYER COSTS AND COST TRENDS

Commissioner David Morales will preside over the hearings, which may be expected to continue through March 31, 2010. The Division shall call as witnesses a representative sample of providers and payers, including but not limited to those specified by the statute, who shall provide testimony under oath and subject to examination and cross examination by the Division and the Attorney General, as authorized by M.G.L. c. 118G, §§ 6 and 6 ½, regarding the factors that contribute to cost growth within the Commonwealth of Massachusetts' health care system and to the relationship between provider costs and payer premium rates. The Division reserves the right to call other witnesses in furtherance of the statutory purpose of the hearings.

Testimony may include without limitation: (i) in the case of providers, testimony concerning payment systems, payer mix, cost structures, administrative and labor costs, capital and technology costs, adequacy of public payer reimbursement levels, reserve levels, utilization trends, and cost-containment strategies, the relation of private payer reimbursement levels to public payer reimbursements for similar services, efforts to improve the efficiency of the delivery system, efforts to reduce the inappropriate or duplicative use of technology; and (ii) in the case of private and public payers, testimony concerning factors underlying premium cost and rate increases, the relation of reserves to premium costs, the payer's efforts to develop benefit design and payment policies that enhance product affordability and encourage efficient use of health resources and technology, efforts by the payer to increase consumer access to health care information, and efforts by the payer to promote the standardization of administrative practices, and any other matters as determined by the Division.

The Division will schedule and accept oral testimony only from witnesses called by the Division; any member of the public may submit written testimony. All written testimony provided by witnesses or the public may be posted on the Division's website: http://www.mass.gov/dhcfp.

Additional information regarding the hearings may be posted from time to time on the Division's website.

Exhibit B: Instructions and DHCFP Questions for Written Testimony

Instructions

1) On or before the close of business February 26, 2010, electronically submit written testimony signed under the pains and penalties of perjury to: costtrends@hcf.state.ma.us.

2) Answer all questions that apply to your organization's experience, limiting your response to no more than 500 words per each numbered question. Please begin all questions with a brief summary not to exceed 120 words. If necessary, please include supporting testimony in an Appendix.

3) The testimony must contain a statement that the person who signs it is legally authorized and empowered to represent the named organization for the purposes of this testimony, and that the testimony is signed under the pains and penalties of perjury. An electronic signature will be sufficient for this submission.

4) If you have any questions regarding this process or regarding the following questions, please contact: Kate Nordahl, Assistant Commissioner, at Kate.Nordahl@state.ma.us or (617) 727-7662 (fax).

Questions

1) After reviewing the preliminary reports located at www.mass.gov/dhcfp/costtrends please provide commentary on any data, or finding that differs from your organization's experience and the potential reasons therefore.

2) Do you see trends in your revenues, from 2006 to 2008 or more recently, that differ materially from these aggregate trends with respect to:
    a. The rate of change in outpatient facility prices and faster revenue growth compared with inpatient revenues;
    b. The growth of revenues for outpatient imaging services;
    c. Price changes versus other sources of growth in revenues, for inpatient and outpatient services.

3) What are the one or two most important underlying causes of your experience, as described above? Provide any information you have that will support your assertions. In particular:

    a. What accounts for the growth in inpatient facility prices? What accounts for the growth of hospital outpatient facility price per service? What accounts for the growth in utilization of outpatient hospital facility services? Do you foresee the same factors continuing to drive the growth in total facility revenues in future years?

    b. How does your relative market position or market share affect your cost or revenue trends?

4) The concentration of teaching hospitals in Boston means that tertiary hospitals effectively serve as the "community hospital" for many patients. If your hospital is located in Boston, what reasonable solutions could your organization develop to provide routine care in less expensive –

but appropriate - settings? If your hospital competes for patients with a teaching hospital outpatient facility, how has this impacted your revenues, costs and service mix?

5) Overall, we found an increase in the proportion of services being provided in more expensive settings. Is this trend occurring in your market area? What is driving this trend and what solutions would moderate this trend without impacting quality?

6) From 2006-2008, what was your average annual increase in labor costs compared with your average annual increase in patient revenue? What are the major factors driving change in labor costs? What are the major factors driving change in patient revenues?

7) Are the costs of acquiring medical equipment and technologies increasing, decreasing, or staying the same? Why and how do you think this is the case? What contribution is this having on your overall costs?

The following questions relate specifically to your experience in service prices and mix of services provided:

8) What factors do you consider when negotiating payment rates for inpatient care and outpatient services? Please explain each factor (e.g., labor costs) and rank them in the order of impact on negotiated rates.

9) Do you generally negotiate contracts with carriers as part of a larger system or as an individual facility? Is there a material difference in how you approach contracts when you are contracting as part of a system vs. as an individual facility?

10) If applicable, do the services provided in your outpatient facilities in suburban areas differ from those in Boston? If so, how? For those services offered in both locations, do you charge the same or similar rates for all locations? If not, how do the rates – or price paid per person - differ and based on what factors? Are these facilities competing with community physicians or hospitals, or both for the same patients?

11) How has the expansion of outpatient facilities impacted the composition of surgical and medical admissions to your institution? How has the expansion of outpatient facilities impacted the price or cost paid per person of your institution?

12) How does the variation in prices among different providers in your peer group (e.g., teaching/community hospitals, providers in your geographic area, your key competitors) affect the payment rate increase you seek in negotiations with health plans? Please provide an explanation of how you define your "peer group".

With respect to the aggregate trends, please comment:

13) What specific actions has your organization taken already to address these trends in the short term or long term? What current factors limit the ability of your organization to execute these strategies effectively?

14) What types of systemic changes would be most helpful in reducing cost trends without sacrificing quality and consumer access? What other systemic or policy changes do you think

would encourage or help health care providers to operate more efficiently? What changes would you suggest to encourage treatment of routine care at less expensive, but appropriate settings?

15) Could enhanced competition or government intervention or a combination of both mitigate the cost trends found in the Divisions report? Please describe the nature of the changes you would recommend. In addition, please address the following:
    a. What would be the impact on your organization of making data public regarding quality and the reimbursement rates paid by each carrier to each hospital or system in a manner that identifies all relevant organizations? What is the advantage or disadvantage to your organization of the current confidential system?

With respect to future years' Cost Trends Reports:

16) Please identify any additional cost drivers that you believe should be examined in subsequent years and explain your reasoning.

17) Please provide any additional comments or observations you believe will help to inform our hearing and our final recommendations.

Exhibit C: Instructions and AGO Questions for Written Testimony

Instructions

1) On or before the close of business February 26, 2010, electronically submit written testimony signed under the pains and penalties of perjury to: costtrends@hcf.state.ma.us.

2) Answer all questions that apply to your organization's experience, limiting your response to no more than 500 words per each numbered question. Please begin all questions with a brief summary not to exceed 120 words. If necessary, please include supporting testimony in an Appendix.

3) The testimony must contain a statement that the person who signs it is legally authorized and empowered to represent the named organization for the purposes of this testimony, and that the testimony is signed under the pains and penalties of perjury. An electronic signature will be sufficient for this submission.

4) If you have any questions regarding this process or regarding the following questions, please contact: Ashley Reid, Office of the Attorney General, at Ashley.Reid@state.ma.us, (617) 963-2488, or (617) 573-5386 (fax).

Questions

1) Please explain and submit a summary table showing your internal costs and cost trends from 2004 to 2008 broken out to show categories of aggregate direct costs (e.g., labor costs for all cost centers) and categories of indirect costs including, but not limited to, debt service, depreciation, advertising, bad debt, stop-loss insurance, malpractice insurance, health safety net, development/fundraising, administration, research, academic costs. Please explain and submit supporting documents to show the methodologies you use to allocate the categories of indirect costs to cost centers (operating units).

2) Please explain and submit supporting documents that show any steps you have taken to reduce or control the growth of your internal direct or indirect costs in the last 5 years.

3) Please explain and submit a summary table showing your annual operating margins (positive or negative) from 2004 to 2008 for your entire commercial, government, and all other business (and please identify the carriers or programs included in each of these three aggregate margins). Please explain and submit supporting documents to show the mechanics of how you calculate your margin from your accounting system and identify whether you exclude any direct costs or indirect costs, or include any grants, donations, or non-patient revenue, in calculating your margins.

4) Please explain and submit supporting documents that show how your DHCFP-403 Cost Report submission differs from your own internal cost information including any difference in direct costs, indirect costs, or non-patient revenue.

5) Please explain and submit a summary table showing your annual capital ratio, debt service coverage ratio, and cash on hand for fiscal years 2004 to 2008 and include any target ratios and cash position you have set to obtain bond or bank financing. Please explain how your capital expenditures (property and equipment), restricted capital donations, and changes in cash position (endowment) have increased or decreased your internal costs and margin calculations.

6) Please explain and submit supporting documents that show your internal costs, including any stop-loss coverage, for any risk you currently bear related to your contracts with commercial insurers. Please include any analysis you have conducted on how much your costs and risk-capital needs would change based on increases or decreases in risk you bear in relation to your business with commercial insurers.